

## **DEVELOPMENT POTENTIAL OF SMALL AND MEDIUM-SIZED ENTERPRISES BY IMPROVING THE COMPETENCIES OF ENTREPRENEURIAL LEADERSHIP**

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**Abstract:** Based on the review of previous research procedures, can be seen that entrepreneurial leadership represents a complementary aspect of leadership and entrepreneurship, and as such constitutes one of the main factors in the development of small and medium-sized enterprises. In order to connect leadership and entrepreneurship more closely, a comprehensive review of the relevant literature on entrepreneurial leadership, classified through the periods in which it was defined, will be carried out. Through an in-depth perspective, models of leadership evolution through the aspect of entrepreneurship with clear practical implications will be presented. This type of analysis will create a new framework for the development of key competencies that surround entrepreneurial leadership and, on whose influence, organizational growth and development directly depends. This set of competencies is especially important, due to the circumstances that arose after the COVID-19 pandemic, and this means finding a leadership model that will enable organizations to absorb the negative effects of business in the macro environment and lead in the direction of optimal market sustainability. Also, by expanding existing theoretical knowledge about leadership and entrepreneurship, authors strive to provide a new perspective on modern management in turbulent times.

**Key words:** leadership, entrepreneurship, SME, entrepreneurial leadership, organizational behavior

### **Introduction**

Leadership as a management component has been considered one of the most important functions of management, on whose role organizational growth and development directly depends. However, the research need on leadership has so far focused much more on large and multinational corporations, leaving room for examining the impact of leadership within small and medium-sized enterprises. Such an orientation was partly conditioned in relation to the influence that large organizations have on the overall social and wider global context. However, as small and medium-sized enterprises increasingly constitute the main lever in the economic development of society, the interest of researchers has also shifted towards these organizations. The dynamic changes taking place in entrepreneurial activities have contributed to small and medium-sized enterprises being at the center of research practice, especially when it comes to leadership.

Through the prism of entrepreneurship, leadership represents a strategic, procedural and rational understanding of the components found in the business environment. On the basis of multidimensional aspects, it is necessary to look at entrepreneurial leadership in an argumentative manner, in order to achieve business sustainability and increase organizational performance. A holistic review of the components of leadership should provide new value for small and medium-sized enterprises in order to realize the importance of leadership as a strategic commitment of organizations.

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Given that the research base on entrepreneurial leadership is expanding significantly, it is necessary to pay more attention to this segment in the context of small and medium-sized enterprises.

For this reason, the structure of this paper is oriented towards the growing need to understand the factors surrounding entrepreneurial leadership. Especially in today's global circumstances, it is necessary to consider the influence and importance of leadership as an essential segment of entrepreneurial sustainability. The very concept of leadership can only be improved by converting the theoretical implications into a practical form that will have a tangible value for the entrepreneurial sector.

By looking at the social, economic and cognitive aspects that surround leadership in the entrepreneurial context, the outcomes arising from that segment of management can be additionally clarified. The changes that are conditioned by the extended echo of the COVID-19 pandemic confirm the urgency of finding directions and leadership models that will absorb negative market circumstances to the level of necessary organizational sustainability and profitability. That is why the key segment of the work is the presentation of a model that indicates the necessity of developing modern leadership competencies, as a component on which the further development of organizational potential depends, but also the transformational capacity that will be necessary in the challenging times that are coming for the entrepreneurial sector.

### **Conceptual framework of entrepreneurship**

Entrepreneurship as a business direction is impossible to define in a way that would simply describe its basic focus and scope. As an explanation to such a statement, definitions of entrepreneurship derived from different disciplines, such as economics, psychology and management, are attached, thus changing the entire context and meaning. Looking at the mentioned disciplines, it can be said that entrepreneurship is a concept that enables organizations to behave in a way that will create an adequate model of action, communication and development of business relations with the aim of sustainability and competitiveness of business activities (Gebauer, 2018). That is why entrepreneurship is no longer seen as a simple intention of an individual to create an independent business venture. Today, entrepreneurship is both a science and a practice, but above all a way of strategic management of valuable resources at the organization's disposal.

Over time, this point of view was expanded in the literature with the aim of further emphasizing the importance of leadership and presenting it as a closely related component in the development of small and medium-sized enterprises. This is how one of the modern definitions emerged, which emphasizes that entrepreneurship is a concept that allows an individual to use unique skills and abilities in order to create an innovative business venture that will benefit the environment in which it is located (Thukral, 2021). This type of concept clearly indicates that entrepreneurship and leadership are closely related for the purpose of realizing specific business goals. Depending on their size, strategic direction, and the way they are organized, entrepreneurial organizations should apply the leadership style that will best suit

the given structure. The fact is that in small and medium-sized enterprises there is a very dynamic interaction, both at the level of internal stakeholders (employees) and in relation to the external environment (clients, suppliers, institutions, macro-environment), which puts additional pressure on leaders to create high a collaborative environment that will be able to satisfy the needs and aspirations of all the mentioned categories. From that perspective, we single out two entrepreneurial forms that exploit the leadership function differently, namely: newly formed organizations and growing organizations.

### **Leadership in newly formed organizations**

Every newly formed organization faces different types of challenges at the micro level, which it is necessary to use a diverse set of leadership skills. The high uncertainty of the entrepreneurial environment requires the creation of a flexible organization, which will be able to transform and optimize according to new goals within effective deadlines, as well as to identify the changes that need to be implemented. In the initial phase of organizational development, it is necessary to connect different segments of leadership, which include transformation, ethics, empowerment, authenticity and innovation, thereby reducing the risk of initial failure (Sarmawa et al., 2020).

The conclusion is that modern newly formed organizations are under great pressure, to be ready to function in a dynamic environment from the very start, and the leadership trained for different types of roles that will enable long-term market survival. That's why an approach to the development of leadership skills, which is based on a cognitive model, allows new organizations to reach their goals more easily than using a model that relies on the intuitive capacity and current abilities of the leader or owner.

### **The concept of leadership in growing organizations**

Just as the path from a newly formed to a growing organization involves various forms of transformational processes, leadership models also change in accordance with the development of business capacities and organizational needs. At that point of organizational growth, leadership relies more on the development of strategic and functional capacities, as well as on the sharing of leadership towards individuals who are recognized as capable and competent for that type of responsibility. Such an approach shows the maturity of the leader and the understanding of the needs that lead to the maximum activation of the potential of all members of the organization, through effective delegation and execution of tasks. Leaders in growing organizations are more oriented to the strategic aspects of business, as well as to the perception of business opportunities, because this represents the essence of long-term survival in the market. In a situation where the organization has a built organizational profile and a stable business culture, the leader's task will be to control the efficient execution of business tasks and direct activities that will provide consumers with new value, experience or satisfaction (Gross, 2020).

### Theoretical framework of entrepreneurial leadership

Leadership as a global research framework covers different spheres of management mechanisms in organizations, which is why it is necessary to make a distinction between leadership in entrepreneurship and leadership in large and multinational corporations. With the emergence of research interest in leadership in the entrepreneurial context, it is stated that it is a concept that defines issues of management, development and control within micro, small and medium enterprises (Dabić et al., 2021). The goal of such a framework is to further strengthen the role of enterprising individuals who influence positive organizational outcomes with their activities.

There are different eras, both research and practical, in which efforts were made to comprehensively define the role of a leader within entrepreneurship. Depending on the business context in which leadership was examined, it had its incremental evolution in parallel with the development of both economic and social relations related to small and medium enterprises. In Table 1, there will be an overview of leadership perspectives in entrepreneurship, which will be able to show the evolutionary capacity of researchers and their definition of this phenomenon.

**Table 1.** Content theoretical frameworks of entrepreneurial leadership

|                         |   |
|-------------------------|---|
| Macklin (1990)          | <i>Entrepreneurial leadership represents the integration of clear goals, business opportunities, employee participation and an adaptive organizational culture.</i>   |
| Nicholson (1998)        | <i>Entrepreneurial leadership involves influencing other group members to strategically manage valuable resources, in order to find new business and market opportunities.</i>                                    |
| Tarabishy et al. (2005) | <i>Leadership in entrepreneurship requires the establishment of a vision, focus and commitment that will be transmitted to all factors in business.</i>   |
| Ruvio et al. (2010)     | <i>Entrepreneurial leadership is considered a process of combining innovative and creative activities, with the aim of creating a unique value that will enable long-term market competitiveness.</i>             |
| Freeman (2014)          | <i>Entrepreneurial leadership defines different business scenarios that will be understandable to all members of the group, in order to follow a vision that will enable the sustainability of organizational</i> |

|                      |  |
|----------------------|--|
|                      | success.   |
| Mathews (2017)       | <i>Entrepreneurial leadership seeks to direct and improve organizational performance towards achieving goals through strategic thinking, recognizing and exploiting business opportunities.</i>                  |
| Sarabi et al. (2020) | <i>Entrepreneurial leadership constitutes a set of behaviors and activities that effectively moves other group members towards establishing high work performance in order to meet high market expectations.</i> |

On the basis of the presented theories, a clear transition of the function of entrepreneurial leadership is recognized from the exclusive delegation of work and control of employees, to the inclusion of innovative components, strategic approach and consideration of future market needs. This leads to the conclusion that leadership in entrepreneurship can be seen as a separate form of leadership, which opposes the standardization of its role and function. On the other hand, certain authors, through a holistic approach, promoted the idea that it is impossible to separate entrepreneurial leadership from the basic paradigm of management, but it can be considered a specific phenomenon that needs to be even more closely connected with the strategic functions of management (Simić et al., 2020).

Entrepreneurial leadership is a specific category, due to the multidimensional structures of small and medium-sized companies, but its role is based on already proven management approaches. Based on the theoretical foundations presented in Table 1, it can be seen that the perspective of leadership, in all research epochs, sublimates three basic frameworks: setting up systems, developing operations and controlling activities, which form the center of small and medium enterprises growth. In the construction of the aforementioned theories, can be see that leadership represents an essential value in terms of the growth and development of small and medium-sized enterprises, on whose actions organizational competitiveness and profitability directly depend. That's why entrepreneurial leadership is seen as a complex system that includes: (1) defining and modeling a new business idea, (2) establishing a mission and vision that will be supported by the organizational culture, (3) continuous improvement of team performance, (4) innovation, creativity and bringing of new value, (5) development of transformational potential and effective adaptation to changes in the environment. This concept aims to guide leadership towards behavior that will enable the improvement of entrepreneurial potential.

By combining entrepreneurship and leadership, a multifunctional management structure is obtained, which has the potential of effective exploitation of valuable resources, which will lead to new opportunities, and maximally mobilize employees according to the strategic directions of the organization (Gross, 2019). Although leadership is primarily viewed as a set of individual abilities, authors perspective is

directed towards models that recognize leadership as a specific category that must be tailored depending on the context in which the organization is located and the needs arising from such circumstances.

### **Characterization of small and medium-sized enterprises**

In their basic form, small and medium-sized enterprises represent organizations whose management, strategy and development are in the direction that the owners shape according to their own vision. Also, what additionally unites small and medium-sized companies are limited resources that must be allocated in a way that will enable the unhindered realization of business results. Such a characterization implies that the entire organization is culturally adjusted in relation to the individual characteristics and abilities of the owner or founder. That is why the complexity of the business models of small and medium-sized enterprises is significantly higher than in the case of large and multinational organizations.

This is explained by the fact that the spectrum in which small and medium-sized enterprises operate is extremely wide, as well as the activities, which cover different business sectors. Heterogeneity in these organizations once again confirms the thesis that entrepreneurship is the main factor in the economic growth of society. With the development of entrepreneurship, new perspectives have been opened for individuals to shape and create their own business environment, without being organized into stereotypical forms, which are visible in large or state-owned organizations. Depending on the structure of the market, as well as the socio-economic environment, organizations have the ability to adapt their business activities in response to such circumstances, which means permanent activation of intellectual, innovative and cognitive capacities (Roundy, 2020).

Looking at developing countries, as well as those that have already reached a high level of progress, one can see the level of investment in the development of entrepreneurship, as a vital segment of economic growth. Based on the report of the United Nations Development Program - UNDP (2017), the largest global turnover of capital, as well as the share of employment, is realized in entrepreneurial activities. There is a clear tendency to expand entrepreneurship towards all spheres of business, which indicates the permanent creation of business models that will be able to support high profitability and permanent growth. With the different level of resources at their disposal, the size and structure of the organization, it is necessary to find leadership styles that will best be able to respond to the competitive challenges in the business environment (Schoemaker et al., 2018). That is why it is necessary to establish new models of entrepreneurial leadership that will be able to map the path of business success in challenging times.

### **Modern management and development potential of small and medium-sized enterprises**

From the perspective of functionality, it can be seen that the entrepreneurial sector is very sensitive to the pressure and changes that occur periodically in the



business environment. The structure of small and medium-sized companies, as well as their resources, are much less resistant to market turbulence than large and multinational companies, which are able to more easily absorb negative effects from the environment. This stems from the fact that entrepreneurship implies constant market penetration and competitive positioning, which is not the case with large organizations that are already established and recognized by consumers. That is why one of the ways to ensure the sustainable growth of entrepreneurial organizations is through the establishment of an effective management system and leadership skills and abilities.

Miao et al (2019) found out that a large number of small and medium-sized enterprises lack key management activities, which potentially leads to poor organizational performance and the inability to competitively position themselves in the market. This primarily refers to activities in the analysis of business and economic opportunities in the environment, technological tendencies and markets that are not saturated and overloaded with the same or similar services. The development of management skills will enable leaders to include the mentioned aspects in their personal strategic vision, thereby opening a perspective for their organizations in creating new value that will set them apart from stereotypical positions that occur in entrepreneurship (Newman et al., 2018).

In today's time of rapid technological changes, there is an established opinion that the biggest development problem of the organization is inadequate technical capacities, which prevent the excellence of the production process. In order to establish an effective organization, a management system must first be established that will enable all segments in the organization to be connected in a single business process (Cai et al., 2019). A different path, from the above, in the development of organizations represents a short-term bridging of current challenges, which leads to the necessity of establishing systematic and coordinated entrepreneurial leadership. It can be concluded that leadership and entrepreneurship represent complementary forms in the successful management of an organization, its vision and direction. As one of the key segments on that path is the scanning of market opportunities, which trigger initiatives on which the growth and competitive capacity of the organization depends. Mapping the organization's development strategy is one of the main operational tasks of management, but the question remains open as to how many capabilities and available resources small and medium-sized enterprises possess in order to be able to effectively monitor market changes.

Also, the lack of experience or insufficient training of the owners of organizations for management functions, as well as the inability to see the holistic perspectives of business, can additionally explain why there is a reduced focus according to market tendencies and opportunities that are indicated. In addition, as a source of additional complications in management, it is possible for the owner to independently perform most operational functions, such as issues of finance, marketing, quality control, human resources management, etc.

Based on what has been presented, it is clearly visible that management characteristics

and abilities directly affect the growth of companies and their contingent of efficient adaptation to market changes. Through the development of the necessary competencies, entrepreneurial leadership has the ability to improve business growth prospects and management functions. The basic idea of this research is directed towards the development of a model that should include all key factors in modern management, and which, from the perspective of entrepreneurship, will enable clear business goals to be defined, recognize and use new opportunities and perspectives, create group coherence and establish sustainable development human resource management system.

### **Methodological justification**

This paper primarily seeks to advance the understanding of the importance of entrepreneurial leadership in the practical context of small and medium-sized enterprises. The previous formal theories allowed the authors to create an autonomous model that should be applicable to the conceptual framework of small and medium enterprises and the growing potential of entrepreneurial leadership.

The research is primarily based on the literature, which in its form looks at leadership differently in relation to the era in which it was defined. A new perspective of leadership in entrepreneurship is the nominal goal of this work in finding a multi-dimensional approach to management mechanisms in small and medium-sized enterprises.

Given that this research is based on knowledge that is closely related to professional literature, the key segment is the correct classification and use of relevant research findings, which are linked to practical implications. By combining literature covering different research designs, such as meta-analysis and meta-synthesis, authors wanted to get to the most relevant secondary data resulting from qualitative analyzes of the research process.

Through a systematic search for keywords and narratives that integrate leadership and entrepreneurship, related literature that represents a basis for further understanding of management, business development and competitive strengths of small and medium-sized enterprises, was selected. For the purposes of the search, eminent electronic databases such as Google Scholar, EBSCO and KOBSON, were used.

The authors of the paper interpreted the collected data individually, and then framed them contextually in order to have a clearer understanding of entrepreneurial leadership and its importance on organizational results. Through the synthesis of literature, which partly derives from theoretical and partly from practical findings, a new framework will be presented, which should have useful value at the management level of small and medium-sized enterprises.

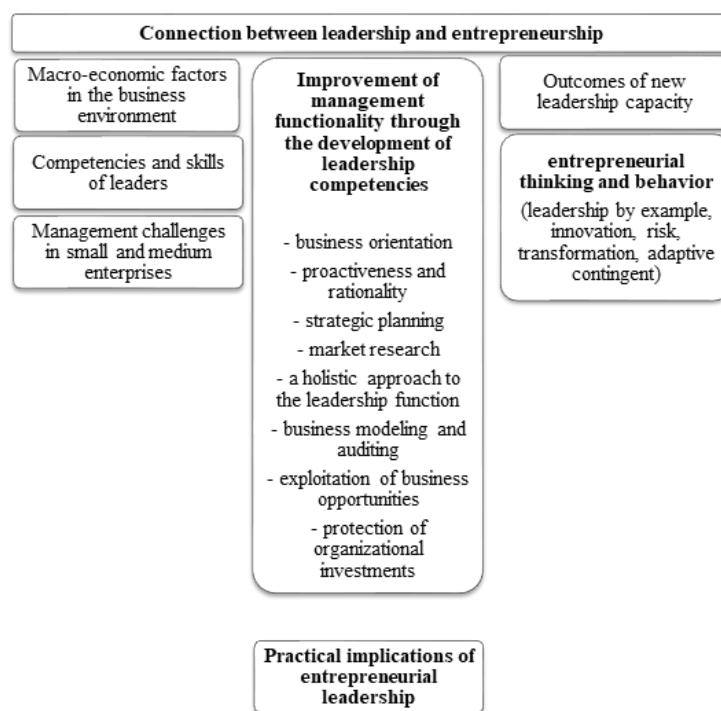
### **Critical analysis of leadership competences in the entrepreneurial context**

Leadership as a phenomenon has been a research need for many years, and as such has defined many directions of management in organizations. One of the directions that arouses the interest of the academic community is entrepreneurial leadership,



which increasingly represents the strategic determination of organizations in establishing competitiveness and profitability. Through such research procedures, a new value for entrepreneurs is mapped in the direction of a holistic approach in solving the complicated circumstances in which organizations operate on a daily basis. The introduction of new instructional tools in the process of managing an organization should help small and medium-sized enterprises to move more easily through an unstable market and to find effective management models that will ensure the smooth development of business potential.

The purpose of the proposed model in Figure 1 is a strategic illustration of the key leadership competencies that map the path to the business success of small and medium-sized enterprises. By closely linking the context in which organizations operate, the functional leadership competencies, as well as the outcomes arising from such a framework, vital results will be reached that should enable organizations to achieve long-term competitiveness and market sustainability.



**Figure 1.** The practice of modern leadership through the development of leadership competencies

By combining the aspects of entrepreneurship and leadership, the possibility of effective transformation of the development and management capacities of organizations during adaptation to different market circumstances is created. This type of connection allows entrepreneurs to improve and expand knowledge about strategic aspects of management and leadership in order to respond as effectively as

possible to the challenges that arise in their environment.

The development of leadership competencies, shown in Figure 1, increases the individual's cognitive capacity in the direction of business planning, strategic management and process activities that should enable the establishment of a business model in accordance with organizational needs. Also, by improving management skills, the potential of rationality and effective scanning of the business environment is released, which implies a new proactive form of behavior and understanding of complex business relationships.

Based on what has been presented, it can be seen that the personal characteristics and competencies of the owner or founder of the organization are one of the most important aspects in practical entrepreneurial management. Through the continuous development of essential skills, leaders have the opportunity to increase entrepreneurial capacities, but not only within personal needs, but also in a wider organizational context. The attached theoretical framework should move managers or owners towards strategic thinking about future business activities, which completely transforms the stereotyping of management functions according to the necessity of looking at the wider context in which the organization is located.

### **Discussion: theoretical application of the presented model**

In order to develop a modern concept of management in entrepreneurship, a model was proposed that should represent an instructive and practical framework for understanding strategic leadership and its importance for organizational results. The development of functional abilities, as well as key competencies, is something that will enable the role of a leader for entrepreneurial and tactical thinking, searching for new opportunities, willingness to take risks and looking at broader perspectives in business.

By improving the functional skills found in the presented model, leadership as a function has the ability to structurally protect organizational investments, by knowing how to establish long-term competitive advantage, profitability and solvency. Without the development of the aforementioned competencies, it will not be possible to fully satisfy the needs that the organization should provide to different markets, which will directly affect the effective achievement of business goals.

By insisting on the connection between entrepreneurship and leadership, this paper aims to improve the understanding that the expected business results largely depend on the structure of management functions, as well as on the competences and behavior that comes from the owner or manager of the organization. Now that the pressure on small and medium-sized enterprises has increased significantly, leadership as a function must be transformed in a way that will ensure the coherence of internal functions and connection with the current needs and future tendencies of the market in which it operates (Nielsen et al., 2019)

The practical implications of the proposed model should primarily help entrepreneurs in developing management of complex operations in order to successfully operate in different markets. The model can be applicable to different organizational structures

that are classified as small and medium-sized enterprises, and are oriented towards the globalization of business relations or tend towards such a form of business.

The proposed framework of leadership competencies is particularly significant, in the circumstances caused by the COVID-19 pandemic, because it is mostly intended for overcoming challenges in complex business conditions. And as one of the basic tasks of leadership in such circumstances is the close connection of internal business operations with current market demands and future needs. New global circumstances lead entrepreneurs to research and apply management models that will enable them to develop their business permanently in relation to their own business context (Saseendran and Salman, 2019). And that's why this work offers applicable knowledge in the field of entrepreneurial leadership that amortizes management complexity when managing an organization.

By looking at the current position of the organization, as well as competitive opportunities, it is easier to realize the expected entrepreneurial development in the market, which is rapidly expanding in the direction of improving the quality and efficiency of service delivery. Without the development of management competencies that will provide a strategic overview of the organization's position and its development opportunities, it is impossible to expect business survival and consumer satisfaction in the long term (Newman et al., 2018).

In addition, by integrating current and future needs in entrepreneurial leadership, authors articulated a holistic approach in looking at strategic leadership within small and medium-sized enterprises. At the center of these activities is the top management or ownership structure, which has the obligation to recognize all segments that influence organizational success through the elements of strategic leadership.

### **Wider practical implications**

Based on empirical parameters, it is noticeable that there is a significant number of entrepreneurial organizations, especially in developing economies, that do not have a sustainable path of business development, from basic organizational postulates to significantly more complex operational processes (Ma and Jiang, 2018). One of the reasons for such circumstances can be found in the lack of essential leadership skills, which slows down or completely inhibits stable business development. Due to the insufficient flexibility of the organizational vision and the impossibility of working out different business scenarios, the development of the aspect of entrepreneurial leadership is imposed as a possible solution in overcoming the aforementioned challenges, which was the main orientation of this paper. Authors emphasize that proactive management and the use of leadership strategies are an integral part of business development, which confirms the fact that leadership does not only mean the management of valuable resources, but is a function that harmonizes organizational behavior, performance and outcomes.

One of the main obstacles in establishing such functionality is the fact that most entrepreneurs try to control all key functions in the organization. The non-homogeneous distribution of management functions towards individuals who have

adequate competencies clearly shows the lack of managerial vision and management ability. Due to the neglect of leadership development needs, establishing sustainable business development and effective management of operational processes can become very challenging for entrepreneurs. The only answer to such obstacles is the adoption of the necessary managerial skills and the training of leaders for effective management of business systems.

Further development of the issue of entrepreneurial leadership and the way it should be organized in small and medium-sized enterprises was one of the main drivers of this research. Connecting the basic determinants of entrepreneurship and leadership further strengthens our theoretical framework, which should have practical implications in increasing the leadership contingent in small and medium-sized enterprises. As a conclusion, the improvement of leadership skills in today's business circumstances is considered one of the key aspects of business profitability, taking into account the period that came after the COVID-19 pandemic, which entail the transformation of business development in the direction of increasing the quality and efficiency of service delivery.

### **Suggestion for future research**

Given the increased interest in examining entrepreneurial leadership, this paper provides a theoretical framework for the further development of the concept of leadership in small and medium-sized enterprises. Future research could be directed towards examining leadership within nano- and micro-enterprises, as well as the conceptual development of models of entrepreneurial leadership in the post COVID period. The realization of such research would further improve the understanding of leadership in various entrepreneurial contexts, which will surely multiply in the coming years. The upcoming global changes that will undoubtedly occur will also lead to transformations in the entrepreneurial sector, and leadership as an integral segment will have to offer new perspectives in the management of organizations, towards the foreseeable future.

### **Conclusion**

The basic goal of the research procedure was to create a theoretical framework that recognizes leadership entrepreneurship as a practice of effective management of small and medium-sized enterprises. Given that the business direction of those organizations in most cases depends on the current abilities of the owners or founders, our work emphasizes the necessity of continuous development of management competencies, which will raise the role of leadership from basic to strategic level. Understanding and improvement of leadership skills is impossible to establish, unless it is closely connected with the context of entrepreneurship, which the proposed model in this work offers, as an integrated system in stable organizational development.

Mapping the path in the further development of entrepreneurial leadership and understanding its importance in organizational growth is a key segment of this research. Due to the increasing importance of small and medium-sized enterprises

for the growth of the national economy, it seems necessary to connect leadership and entrepreneurship even more closely in order to offer sophisticated theoretical perspectives that will have their wide practical application.

Taking into account that previous investigations of management activities were more oriented towards large and multinational organizations, the need for leadership research in the context of entrepreneurship emerged as a necessary need. That's why it was necessary to improve the practice of entrepreneurial leadership through the creation of appropriate theoretical models, which will help overcome emerging challenges in the market.

By identifying the vital tools for effective management of small and medium-sized enterprises, the authors wanted to offer a new perspective for the leadership contingent, which until now has not been addressed in a structured way, thus opening an entirely new space for the further development of this issue, both in research and in practice.

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